

Wiltshire Council

Cabinet

15 March 2016

Subject: Extension of Old Fire Station – Business Case

**Cabinet Member: Cllr Fleur De Rhé-Philippe
Economic Development, Skills, Strategic Transport, and
Strategic Property**

Key Decision: Yes

Executive Summary

This report sets out a business case to pursue the extension of the building known as the Old Fire Station at Salt Lane, Salisbury to grow the Enterprise Centre that currently successfully operates from the building.

It sets out the costs for redeveloping the building and forecasts the impacts on overall operational cash flow, which forms the basis of the options presented to take forward the business case proposal.

Proposal

That Cabinet approves the business case for the extension of the Old Fire Station Enterprise Centre, and delegates authority to the Associate Director for Economic Development and Planning, in consultation with the Cabinet Member for Economic Development, Skills, Strategic Transport and Strategic Property and Cabinet Member Strategic Planning and Development Management), Operational Property, Waste and Strategic Housing to take forward the business case according to the options set out in the report. If Council funding is required the proposal will be brought back to Cabinet.

Reason for Proposal

The Old Fire Station building is currently underused and the Enterprise Centre is oversubscribed having already demonstrated considerable success in providing a much needed service, assisting business growth and generating jobs. There is a lack of business workspace in the centre of Salisbury as a result of commercial pressure to convert property to residential use. This risks having a knock on effect of decreasing the overall vitality and attractiveness of the retail core. Providing for and stimulating the demand for office space for new start-ups will have considerable economic benefit for the area while maximising the usage of one of the Council's assets.

**Dr Carlton Brand
Corporate Director**

Wiltshire Council

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Purpose of Report

1. To set out a business case for the refurbishment and extension of the Old Fire Station building, Salt Lane, Salisbury, to enable the Enterprise Centre currently operating from the building at over capacity to grow and provide further needed incubation space for new enterprises in the city.

Relevance to the Council's Business Plan

2. The proposed extension of the Salisbury Enterprise Centre will help to address the Council's priority to boost the local economy; creating and safeguarding jobs by stimulating economic growth in partnership with the Swindon and Wiltshire Local Enterprise Partnership.

Main Considerations for the Council

3. The business case proposal is to convert the remainder of the Salisbury Old Fire Station building (corner of Salt Lane and Endless Street) into more workspace, doubling the existing capacity with an extra 20 offices and 2 new meeting rooms. The outline floor plan attached (**Appendix 2**) shows the proposed developable area. The area in white is already in use as the Enterprise Centre.
4. This will involve refurbishing the redundant space, making good and repairing the roof, undertaking general repairs and fit out as contemporary start up business units. If the building continues to deteriorate, it would result in considerably higher costs in future to either remediate the building or significant loss in the sale value.
5. There is strong demand for space of this type in Salisbury. The current operation in the Old Fire Station was 81% occupied within 12 months of opening and is now full with a strong waiting list.
6. Extending the Salisbury Enterprise Centre will allow more small businesses the chance to operate in the city centre, where there is an identified shortage, in part as a result changes to planning policy which has resulted in 'above retail' office accommodation being changed to residential use.

7. Retention of business and office accommodation, as well as provision of a range of business services and networking opportunities, will help maintain/increase the vitality and vibrancy of the city centre.
8. The proposal will also create additional income that can be used to support costs at other TEN centres where the optimum occupancy is taking longer to achieve increasing the overall sustainability of the service.
9. The project will result in a refurbished, attractive asset with an increased value that the Council could sell on as a going concern at some point in the future.
10. It will also contribute towards creating a more vibrant local economy and consolidate the business support offer.
11. The 20 new offices, with potential for a minimum of 46 desks, could potentially deliver an additional 46 jobs on site plus ancillary off site employment likely to factor (i.e. administrative businesses based in the EC employing field based workers e.g. domiciliary care enterprises). The additional space will provide local employment opportunities close to local homes.
12. The development of the Old Fire Station in its central location will enhance business activity in Salisbury and benefit from being within an existing Business Improvement District.
13. There is currently an outline proposal in the current SWLEP project list for Growth Deal funding which has already been appraised. It would be preferable to secure grant funding for whole or at least part of the project.
14. An alternative route for funding via the SWLEP could involve seeking to borrow from the Growing Places Infrastructure Fund (GPIF). The GPIF is a revolving fund, meaning that it should be repaid over an agreed period of time; however, subject to confirmation of State Aid compliance, capital borrowing could be made available to the Council via this route at a 0% interest rate.
15. Potential funding from European and other national programmes is also being explored.
16. Detailed consideration of the cash flow implications is set out below under Financial Implications. Senior officers' projections show that the anticipated revenue from rental income and room hire from the extension would generate a net surplus after operating costs, which could be used to repay possible borrowing, for example from the SWLEP GPIF.
17. If the project were assessed to be able to cover both its operational costs and any cost of borrowing, the Economic Development and Planning Service could consider prudential capital borrowing to fund the proposed improvements. However, the service area would have to bear all the risk of any borrowing, and therefore would have to consider very carefully the potential impacts of any income shortfall or cost overspend on its overall budget and delivery of its core functions.

18. Reinvestment of any surplus income (after costs including any borrowing) into The Enterprise Network could support the delivery of further centres (to support, for example, Army dependants and leavers to start their own enterprises), or improve the infrastructure at existing centres, further increasing the attractiveness and competitiveness of the TEN offer.

Background

19. The Enterprise Network (TEN) is a project which has been developed to provide business environments to support new business startup and growth. TEN has created Enterprise Centres utilising Wiltshire Council buildings that had become surplus to requirements (Ascot Court Trowbridge, Old Manor House Wootton Bassett and the Old Fire Station Salisbury) as well as increasing the range of provision at the Castledown Business Park. It has also providing funding to create incubation space at a further 6 local centres. Funding for the project has come from a number of sources including Action for Wiltshire, Defra, Plain Action and the European Regional Development Fund.
20. Due to the limitations of TEN funding only half of the Old Fire Station building at Salisbury was refurbished as an Enterprise Centre, and consequently the remainder has remained vacant. The building was initially constructed as a co-located Fire and Police Station and most recently, prior to the Enterprise Centre, was used in its entirety as Salisbury Social Services Area Office.
21. The Old Fire Station has become a Hub for the business support community, utilised by the Salisbury FSB, Salisbury BID, Inspire-Wiltshire Business Support Service and Salisbury Chamber of Commerce and Industry. Further development would serve to consolidate access to business support for local businesses.
22. The extension of the Old Fire Station Enterprise Centre has the support of all key local business networks, including the Salisbury and District Chamber of Commerce, the Business Improvement District, and the local FSB committee. There is a good level of public acceptability of the project, it will bring a currently redundant building back into use and enhance the small business community (and its related economic offer). This proposal is supported by the TEN Advisory Board, and all strategic partners. The key consultation area is the local business community, potential tenants and users. Good links exist between TEN and local business networks (e.g. Chamber of Commerce, FSB, the Salisbury Business Improvement District).

Overview and Scrutiny Engagement

23. The Wiltshire Incubation Environments and the Rural Growth Network were included in a wider report on the work of the Economy and Regeneration service taken to Overview and Scrutiny Management Committee on 18 October 2012. A further update was provided 11 April 2013 confirming the creation under The Enterprise Network of a new centre at Salisbury as well as North Bradley and Royal Wootton Bassett.

Safeguarding Implications

24. There are no safeguarding implications directly associated with the business case.

Public Health Implications

25. Improving access to employment has an overall benefit to public health locally as there is a proven link between jobs, financial security and better health.

Procurement Implications

26. The project development and delivery works discussed in this report will be procured from relevant parties in line with the Wiltshire Council regulations and process pertaining to corporate procurement. Advice and guidance has been sought and will continue to be sought from the Corporate Procurement Unit prior to embarking on any procurement activities.

Equalities Impact of the Proposal

27. As the project develops, Wiltshire Council officers will continue to consider the equality implications locally and ensure that there are no negative impacts. This will be done via a local Equalities Impact Assessment and will be consulted throughout the lifetime of their development and delivery.

Environmental and Climate Change Considerations

28. Refurbishment of the remainder of the building will help maintain and preserve the fabric of the building and prevent further deterioration. Refurbishment and repairs to the roof will also improve the buildings overall efficiency and reduce heat loss.

Risk Assessment

29. **Risks that may arise if the proposed decision and related work is not taken**
- (i) The building continues to deteriorate resulting in considerably higher costs in future to either remediate the building or significant loss in the sale value.
 - (ii) Failure to improve the income stream to the wider TEN operation will have an impact on its future sustainability and self-sufficiency resulting in either reduction of closure of the programme.
 - (iii) There is a potential loss of growth businesses from Salisbury as result of lack of suitable space.

30. **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

Risk	Impact (0-4)	Prob (0-4)	Total	Mitigation
Project cost exceeds funds available.	4	2	8	<p>A full cost appraisal will be undertaken at the start of the project and any necessary cost engineering to keep the project within the budget envelope.</p> <p>Tight project management controls will be put in place and the project will be developed in conjunction with the programme office.</p> <p>The forecast figures provide contingency for repaying a higher value loan.</p> <p>There is an outline proposal in the current SWLEP project list which has already been appraised and scored highly.</p> <p>Finance via the SWLEP GPIF may also be considered, however careful provision would need to be made to ensure that any borrowing from the GPIF could be repaid in agreed timescales from surplus income generated by the extension.</p> <p>Potential funding from European and other national programmes is also being explored.</p> <p>Prudential capital borrowing could be considered by the Economic Development and Planning Service however would need to be very carefully considered in view of the risk of impact on its core budget for service delivery.</p>
Cost escalation due to unknown / unforeseen issues.	3	2	6	<p>A full survey will be carried out to identify the extent of construction risk and required contingency.</p> <p>Ongoing monitoring throughout delivery will ensure further issues and risks are identified early and dealt with efficiently.</p>
Lack of buy-in from local partners.	2	2	4	<p>Ongoing liaison with local partners will continue. A user/design group has been established to ensure the project is delivered to the specifications required by the end user.</p>

Delay in the project delivery / completion time	2	2	4	A detailed project plan will be prepared in advance. Funding will only be drawn down when project is ready to commence.
Insufficient income generated over project lifetime to repay loan	3	2	6	Evidence has been gathered which demonstrates a high level of demand. More of the resources of the wider TEN service can be directed at marketing and promotional efforts. Alternative letting arrangements and target markets could be considered ie pop up retail, Contingency has been allowed in the cash flow forecast to increase the percentage of the operating margin used to repay any borrowing. The building could be sold either as a going concern or as a refurbished building for office use or if necessary as a potential residential conversion if for any reason it is not viable. This would enable the council to recoup its borrowing.

Financial Implications

Costs

31. The projected cost for the extension refurbishment is estimated at approximately £500K. This is based on the original costs to convert half the building in 2012/13, allowing for year on year cost inflation and an identification of works which do not need to be repeated. The site has recently been reviewed by consultants Steele Davis and officers from the property service. At this stage, prior to detailed project design and condition survey, they believe these indicative costs to be reasonable.
32. The running and projected income costs are based on the operation of the existing centre. It should be noted that the income from operating half the building already covers the business rates for the whole building.
33. Income will be achieved via office space rental, desk rental (co-working and hot desk packages), virtual office provision and room booking charges. This income will cover the running costs of the enlarged centre. The business case is developed working on an optimum occupancy model to allow capacity for churn – it is important that businesses take space and benefit from the services provided for 18 to 24 months and then graduate from the incubation space.
34. The model is based on generating income from operating the building as an Enterprise Centre. However, if this should not prove viable in the future the building could be sold. An assessment of the potential value of the building once refurbished has not been undertaken at this stage.

35. Capital and Revenue running costs will be reviewed when the project goes through detailed design. Initial modelling based on costs of the redevelopment of the first half of the building together with two site visits with Steele Davis and officers from Property shows the project being able to cover the future revenue running costs. This does not cover future revenue costs of capital.
36. The cost model assumes modest inflation and low levels of price increases for lettings. Property maintenance is expressed as an annual cost but alternatively could be expressed as a small general fund for minor repairs and a sinking fund to cover replacement of major items such as boiler.
37. The alternative options available to finance the scheme are Local Growth Fund grant funding via the SWLEP, other sources of European or other grant funding, or an interest free repayable grant from the SWLEP Growing Places Infrastructure Fund. It is recommended that these options be fully explored and tested before any consideration is given to borrowing at cost to finance the project. If Council funding is required the proposal will be brought back to Cabinet.

Legal Implications

38. There are no specific legal implications beyond normal procurement regulations.

Options Considered

39. To:
 - (i) Do nothing. This is not the preferred option since, as highlighted in the risk assessment, the building will continue to deteriorate, and no additional economic benefit will be gained.
 - (ii) Secure finance to enable the project to come forward, subject to further work being undertaken (this work can be undertaken within existing service budgets) to ensure that the income generated by the proposed extension will cover both the capital cost to deliver the extension and the operational costs once the project is delivered. This is the preferred option and it is proposed that Cabinet delegate authority to the Associate Director for Economic Development and Planning in consultation with the Cabinet Member for Economic Development, Skills, Strategic Transport and Strategic Property, to explore the available options for securing finance to deliver the project.
 - (iii) Sell the Old Fire Station building. This is not the preferred option at this time, as proceeding with the improvements set out in this report will potentially enable the underlying value of the building to be significantly improved.

Conclusions

40. Redevelopment of the remainder of the building as an extension to the successful Enterprise Centre is both financially viable and beneficial to the local economy. Furthermore it will safeguard and enhance the value of a Council asset.

Alistair Cunningham
Associate Director Economic Development and Planning

Report Author:

Tim Martienssen

Head of Service, Economic Development and Planning

15 March 2016

Background Papers

The following documents have been relied on in the preparation of this report:

Salt lane Salisbury - preliminary costings 2012



Salt lane Salisbury -
preliminary costings.p

Appendices

Appendix 1 - OFS Extension_15yr Cash Flow Projection_RFv2_040216



Old Fire Station
Extension NPV.xlsx

Appendix 2 - OFSEC Floor Plan annotated



OFSEC Floor Plan annotated.jpg